

**CITY OF TRAER**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2010**

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**City of Traer**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Russell Drinovsky	Mayor	Jan 2010
Mark Mason	Mayor Pro tem	Jan 2010
Patty Guzman	Council Member	Jan 2010
Lou Rausch	Council Member	Jan 2010
Mark Mason	Council Member	Jan 2012
Raymond Mundt	Council Member	Jan 2012
Jake Schmitt	Council Member	Jan 2012
Jon Panfil	Clerk/Treasurer	Indefinite
Dorothy Weida	Deputy Clerk	Indefinite
Bruce Reinders	Attorney	Indefinite
Bruce Overton	TMU Trustee/Chairman	Jan 2013
Daniel Larmore	TMU Trustee/Vice Chairman	Jan 2014
Sandra Whannel	TMU Trustee	Jan 2010
Richard Thompson	TMU Trustee	Jan 2012
Joe Morris	TMU Trustee	Jan 2015
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite
<b>(After January 2010)</b>		
Pete Holden	Mayor	Jan 2012
Mark Mason	Mayor Pro tem	Jan 2012
Mark Mason	Council Member	Jan 2012
Raymond Mundt	Council Member	Jan 2012
Jake Schmitt	Council Member	Jan 2012
Lou Rausch	Council Member	Jan 2014
Lee Wiges	Council Member	Jan 2014
Jon Panfil	Clerk/Treasurer	Indefinite
Bruce Reinders	Attorney	Indefinite
Joe Morris	TMU Trustee/Chairman	Jan 2015
Richard Thompson	TMU Trustee	Jan 2012
Suzanne Earley	TMU Trustee	Jan 2013
Nick Podhajsky	TMU Trustee	Jan 2014
Sandra Whannel	TMU Trustee	Jan 2016
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite

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**City of Traer**

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# **LINES MURPHY & COMPANY, P.L.C.**

Certified Public Accountants

625 Main St.

Osage, IA 50461-1307

Ph. 641-732-5841

Fax 641-732-5193

## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Traer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2010 on our consideration of the City of Traer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lines Murphy & Company P.L.C.*

Lines Murphy & Company, P.L.C.  
Certified Public Accountants  
Osage, Iowa

October 1, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Traer provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 11.4%, or approximately \$151,000, from fiscal year 2009 to fiscal year 2010. Property tax increased approximately \$32,000 as Operating grants and contributions and Capital grants and contributions increased approximately \$70,000 and \$119,000, respectively. Other general receipts decreased approximately \$63,000.
- Disbursements of the City's governmental activities increased 22.7%, or approximately \$371,000, in fiscal year 2010 from fiscal year 2009. Public safety, public works and capital projects disbursements increased approximately \$144,000, \$81,000 and \$69,000, respectively.
- The City's total cash basis net assets decreased 8.3%, or approximately \$216,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$354,000 and the assets of the business type activities increased approximately \$138,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the electric service, waterworks and sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) **Governmental funds** account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Traer Municipal Utilities Electric, Water, Sewer and Telecom Funds and the City Sewer Fund, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

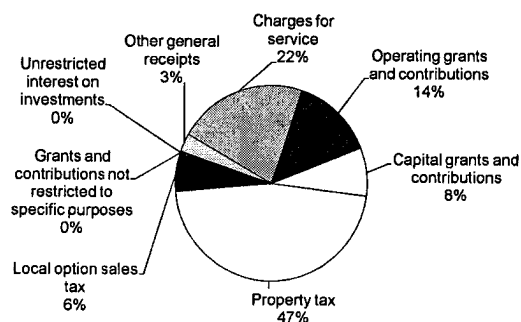


## GOVERNMENT-WIDE FINANCIAL ANALYSIS

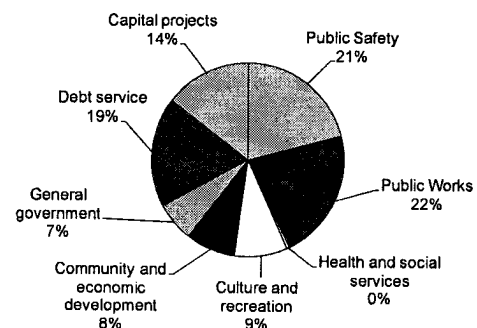
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$1,332 thousand to approximately \$978 thousand. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 321	312
Operating grants and contributions	204	134
Capital grants and contributions	119	-
General receipts:		
Property tax	687	655
Local option sales tax	93	93
Grants and contributions not restricted to specific purposes	4	-
Unrestricted interest on investments	2	22
Other general receipts	45	108
Total receipts	1,475	1,324
<b>Disbursements:</b>		
Public safety	418	274
Public works	441	360
Health and social services	8	7
Culture and recreation	177	168
Community and economic development	167	108
General government	131	133
Debt service	371	361
Capital projects	290	221
Total disbursements	2,003	1,632
Change in cash basis net assets before transfers	(528)	(308)
Transfers, net	174	153
Change in cash basis net assets	(354)	(155)
Cash basis net assets beginning of year	1,332	1,487
Cash basis net assets end of year	\$ 978	1,332

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 11.4%, or approximately \$151,000. The total cost of all programs and services increased approximately \$371,000, or 22.7%, with no new programs added this year. The significant increase in receipts was primarily the result of capital grant proceeds for the purchase of a new fire truck.

The cost of all governmental activities this year was approximately \$2.003 million compared to approximately \$1.632 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$1.359 million because some of the cost was paid by those directly benefited from the programs (\$321,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$323,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2010 from approximately \$446,000 to approximately \$644,000, principally due to receiving grant proceeds to purchase a new fire truck. The City paid for the remaining "public benefit" portion of governmental activities (\$1,359,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Electric	2,325	2,110
Water	363	368
Sewer	125	137
Telecom	152	153
General receipts:		
Unrestricted interest on investments	3	16
Total receipts	2,968	2,784
Disbursements:		
Electric	1,990	1,862
Water	361	360
Sewer	143	224
Telecom	162	155
Total disbursements	2,656	2,601
Change in cash basis net assets before transfers	312	183
Transfers, net	(174)	(153)
Change in cash basis net assets	138	30
Cash basis net assets beginning of year	1,264	1,234
Cash basis net assets end of year	\$ 1,402	1,264

Total business type activities receipts for the fiscal year were approximately \$2.968 million compared to approximately \$2.784 million last year. This was due primarily to an increase of approximately \$214,000 in electric charges for service. The cash balance increased approximately \$138,000 from the prior year and total disbursements for the fiscal year increased 2.1% to approximately \$2.656 million.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$977,959, a decrease of more than \$350,000 below last year's total of \$1,331,569. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$36,298 from the prior year to \$755,246. This decrease was due primarily to the acquisition of the new fire truck, which was purchased using grant proceeds and funds previously set aside for this purpose.
- The Capital Projects Fund cash balance decreased \$233,410 to \$167,345 during the fiscal year. This decrease was due to street resurfacing and curb replacement projects that were completed using G.O. bond proceeds obtained in previous years.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, TMU Electric Fund cash balance increased \$220,429 to \$1,177,093, due primarily to higher than anticipated electric revenues, along with lower capital expenditures and purchased power costs during the year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 3, 2010 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$41,260 more than budgeted. This was primarily due to the grant proceeds for the fire truck purchase, offset by lower than anticipated interest income and Prairie West Lot sales.

Total disbursements were \$579,689 less than the amended budget. This was primarily due to lower capital expenses, lower TMU electric costs, reduced spending in all city budget categories and the elimination of transfers between the City and TMU from the financial statements included as disbursements in the City budget.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$3,948,000 in bonds and other long-term debt outstanding, compared to \$4,399,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2010	2009
General obligation bonds	\$ 1,855	2,130
Revenue bonds	1,493	1,632
State revolving loans	600	637
Total	\$ 3,948	4,399

Debt decreased as a result of scheduled payments made during the fiscal year. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,855,000 is below half of its constitutional debt limit of approximately \$3.901 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Traer's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates and fees that will be charged for various City activities. The City Council was facing continued state funding cutbacks and only a small increase in taxable value.

Taxable value in the City of Traer increased only 0.5%, from \$43.102 million to \$43.3 million. The tax rate for FY11 increased slightly (from \$15.733 million to \$15.976 million). Tax revenues were budgeted to increase approximately \$14,000 in FY11, and total revenues were projected to decrease approximately \$100,000. Expenditures were projected to decrease by about \$300,000. Overall, cash balances were expected to decrease by \$230,000, as street improvements would continue to use the funds borrowed in prior years.

The Traer Municipal Utilities Board approved a budget with overall revenues up by \$170,000. This is the result of a three year rate increase approved in 2008. Overall cash balances were projected to increase by \$15,000. In August of 2009, TMU Board approved a rate decrease for 2010 and 2011, due to a new purchased power contract.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon Panfil, City Clerk, 649 Second Street, Traer, Iowa 50675.

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## **Basic Financial Statements**

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City of Traer

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

		Program Receipts		
		Charges for	Operating	Capital
	Disbursements	Service	Grants and Contributions	Grants and Contributions
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 417,896	129,743	35,770	118,800
Public works	440,949	169,138	151,969	-
Health and social services	7,772	7,351	-	-
Culture and recreation	176,831	11,160	16,619	-
Community and economic development	167,571	-	-	-
General government	131,271	3,514	-	-
Debt service	371,082	-	-	-
Capital projects	290,022	-	-	-
Total governmental activities	2,003,394	320,906	204,358	118,800
Business type activities				
Electric	1,989,687	2,325,136	-	-
Water	360,886	362,911	-	-
Sewer	142,990	125,022	-	-
Telecom	162,655	152,073	-	-
Total business type activities	2,656,218	2,965,142	-	-
Total primary government	\$ 4,659,612	3,286,048	204,358	118,800
<b>Component Unit</b>				
Traer Ambulance Service	\$ 32,039	-	41,169	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted:				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(133,583)	-	(133,583)	-
(119,842)	-	(119,842)	-
(421)	-	(421)	-
(149,052)	-	(149,052)	-
(167,571)	-	(167,571)	-
(127,757)	-	(127,757)	-
(371,082)	-	(371,082)	-
(290,022)	-	(290,022)	-
(1,359,330)	-	(1,359,330)	-
-	335,449	335,449	-
-	2,025	2,025	-
-	(17,968)	(17,968)	-
-	(10,582)	(10,582)	-
-	308,924	308,924	-
(1,359,330)	308,924	(1,050,406)	-
			9,130
514,386	-	514,386	-
172,539	-	172,539	-
93,169	-	93,169	-
4,429	-	4,429	-
2,064	3,509	5,573	1,200
44,846	-	44,846	-
174,287	(174,287)	-	-
1,005,720	(170,778)	834,942	1,200
(353,610)	138,146	(215,464)	10,330
1,331,569	1,264,293	2,595,862	70,389
\$ 977,959	1,402,439	2,380,398	80,719
\$ 1,000	-	1,000	-
1,319	281,154	282,473	-
53,049	-	53,049	80,719
922,591	1,121,285	2,043,876	-
\$ 977,959	1,402,439	2,380,398	80,719

City of Traer

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2010

		Special Revenue	
	General	Road Use Tax	Debt Service
Receipts:			
Property tax	\$ 413,297	-	172,539
Tax increment financing collections	-	-	-
Other city tax	8,594	-	-
Licenses and permits	465	-	-
Use of money and property	6,869	-	49
Intergovernmental	164,634	140,900	-
Charges for service	320,441	-	-
Miscellaneous	54,032	-	-
Total receipts	968,332	140,900	172,588
Disbursements:			
Operating:			
Public safety	417,896	-	-
Public works	208,193	225,794	-
Health and social services	7,772	-	-
Culture and recreation	176,831	-	-
Community and economic development	87,202	-	-
General government	131,271	-	-
Debt service	-	-	371,082
Capital projects	-	-	-
Total disbursements	1,029,165	225,794	371,082
Excess (deficiency) of receipts over (under) disbursements	(60,833)	(84,894)	(198,494)
Other financing sources (uses):			
Operating transfers in	308,155	85,894	199,801
Operating transfers out	(283,620)	-	-
Bond proceeds	-	-	-
Total other financing sources (uses)	24,535	85,894	199,801
Net change in cash balances	(36,298)	1,000	1,307
Cash balances beginning of year	791,544	-	12
Cash balances end of year	\$ 755,246	1,000	1,319
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	1,319
Unreserved:			
General fund	755,246	-	-
Special revenue funds	-	1,000	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 755,246	1,000	1,319

See notes to financial statements.



Capital Projects	Nonmajor	Total
-	92,495	678,331
-	-	-
-	93,169	101,763
-	-	465
1,051	-	7,969
-	6,962	312,496
-	-	320,441
-	-	54,032
1,051	192,626	1,475,497
-	-	417,896
-	6,962	440,949
-	-	7,772
-	-	176,831
-	80,369	167,571
-	-	131,271
-	-	371,082
290,022	-	290,022
290,022	87,331	2,003,394
(288,971)	105,295	(527,897)
55,561	-	649,411
-	(191,504)	(475,124)
-	-	-
55,561	(191,504)	174,287
(233,410)	(86,209)	(353,610)
400,755	139,258	1,331,569
167,345	53,049	977,959
-	-	1,319
-	-	755,246
-	53,049	54,049
167,345	-	167,345
167,345	53,049	977,959

City of Traer  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise Funds			
	Traer Municipal Utilities			
	Electric	Water	Sewer	Telecom
Operating receipts:				
Charges for service	\$ 2,325,136	362,911	125,022	152,073
Operating disbursements:				
Business type activities	1,829,024	309,232	92,322	162,655
Excess (deficiency) of operating receipts over (under) operating disbursements	496,112	53,679	32,700	(10,582)
Non-operating receipts (disbursements):				
Interest on investments	1,631	1,620	68	17
Debt service	(160,663)	(51,654)	-	-
Net non-operating receipts (disbursements)	(159,032)	(50,034)	68	17
Excess (deficiency) of receipts over (under) disbursements	337,080	3,645	32,768	(10,565)
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(116,651)	(36,120)	(55,000)	-
Total other financings sources (uses)	(116,651)	(36,120)	(55,000)	-
Net change in cash balances	220,429	(32,475)	(22,232)	(10,565)
Cash balances beginning of year	956,664	154,192	38,206	(633)
Cash balances end of year	\$ 1,177,093	121,717	15,974	(11,198)
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 161,303	56,000	-	-
Unreserved	1,015,790	65,717	15,974	(11,198)
Total cash basis fund balances	\$ 1,177,093	121,717	15,974	(11,198)

See notes to financial statements.

TMU	City	
Sub-Total	Sewer	Total
\$ 2,965,142	-	\$ 2,965,142
2,393,233	-	2,393,233
571,909	-	571,909
3,336	173	3,509
(212,317)	(50,668)	(262,985)
(208,981)	(50,495)	(259,476)
362,928	(50,495)	312,433
-	33,484	33,484
(207,771)	-	(207,771)
(207,771)	33,484	(174,287)
155,157	(17,011)	138,146
1,148,429	115,864	1,264,293
\$ 1,303,586	98,853	\$ 1,402,439
217,303	63,851	\$ 281,154
1,086,283	35,002	1,121,285
\$ 1,303,586	98,853	\$ 1,402,439

City of Traer

Notes to Financial Statements

June 30, 2010

**(1) Summary of Significant Accounting Policies**

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides electric, water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Traer has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Based on the foregoing criteria, Traer Municipal Utilities (TMU) is considered to be part of the primary government and, therefore, the financial information for TMU is included in the City's financial statements. The financial activities of TMU are reported as Enterprise Funds.

These government financial statements present the City of Traer (the primary government) and the Traer Ambulance Service (component unit). The component unit, discussed below, is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

**Discretely Presented Component Unit**

Traer Ambulance Service is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Traer Ambulance Service is organized as a non-profit corporation. The Ambulance Service collects donations which are to be used to purchase items not included in the City's budget and to help finance new ambulance equipment.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, City Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Landfill Commission and Tama County Joint E911 Service Board.

### B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for the new development of various capital projects.

The City reports the following major proprietary funds:

The Enterprise, TMU Electric Fund accounts for the operation and maintenance of the City's electrical system.

The Enterprise, TMU Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, TMU Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, TMU Telecom Fund accounts for the operation and maintenance of the City's telecommunications system. This fund was included as part of the TMU Electric Fund in years past, but will be reported as a separate fund for fiscal year 2010 and in years future.

The Enterprise, City Sewer Fund accounts for principal and interest payments of the Sewer Revenue Bonds.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the City and Traer Municipal Utilities had investments in the Iowa Public Agency Investment Trust which are valued at an amortized amount of \$929,176 and \$972,461, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940. Also, the City has invested \$15,000 in U.S. Treasury Series HH Savings Bonds.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

**(3) Note Receivable**

The City is entered into a 28E agreement with Traer Municipal Utilities, the Traer Development Corporation and the Traer Chamber of Commerce, Inc. The purpose of this agreement is to acquire, finance and develop real estate ("Prairie West Fourth and Fifth Additions") and to then market the developed lots to the general public in order to promote the economic development of the City of Traer, Iowa. The City paid for the construction of streets, storm sewers, sanitary sewers and other related improvements in and around "Prairie West Fourth and Fifth Additions" in the amount of approximately \$1,700,000. The City has received a non-interest bearing mortgage note from the Traer Chamber of Commerce, Inc. for \$1,700,000. The balance on this mortgage note receivable as of June 30, 2010 was \$1,512,023. Payments received during the year ended June 30, 2010 were \$13,105, and expenses related to the lots were \$0. This is a non-recourse note, payable upon demand by the City. Proceeds from the sale of residential lots are expected to be used for repayment. In October 2009, the City took possession of all but two of the remaining lots. At this time, the mortgage note is still receivable. However, the value of the lots is currently being assessed to determine a reduction in the mortgage note to reflect what was deeded back to the City.

#### (4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, revenue bonds and state revolving loans are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		State Revolving Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 200,000	76,188	145,516	67,441	39,000	24,851	384,516	168,480
2012	225,000	68,781	152,041	61,487	41,000	23,239	418,041	153,507
2013	220,000	60,546	158,644	55,085	43,000	21,541	421,644	137,172
2014	225,000	51,870	165,326	48,278	44,000	19,757	434,326	119,905
2015	230,000	42,788	172,092	40,987	46,000	17,930	448,092	101,705
2016-2020	755,000	80,244	660,205	85,020	260,000	59,313	1,675,205	224,577
2021-2023	-	-	38,939	1,947	127,000	8,179	165,939	10,126
Total	\$ 1,855,000	380,417	1,492,763	360,245	600,000	174,810	3,947,763	915,472

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

##### Revenue Bonds/Notes

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,750,000 of electric revenue bonds issued in May 2003. Proceeds from the notes provided financing for the purpose of paying costs of improvements and extensions to the Municipal Electric Utility and the refunding of the outstanding Series 1991 Electric Revenue Capital Loan Notes. The notes are payable solely from electric customer net receipts and are payable through 2018. The total principal and interest remaining to be paid on the notes is \$1,295,583. For the current year, principal and interest paid and total customer net receipts were \$160,263 and \$482,359, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$871,200 of water revenue bonds issued in December 1981. Proceeds from the bonds provided financing to refund outstanding water revenue pledge orders for improvements to City's waterworks and tower. The notes are payable solely from water customer net receipts and are payable through 2021. The total principal and interest remaining to be paid on the notes is \$557,426. For the current year, principal and interest paid and total customer net receipts were \$51,654 and \$54,566, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$757,000 of sewer revenue notes issued in August 2001 and \$101,000 of sewer revenue notes issued in August 2003. Proceeds from the notes provided financing for the construction of improvements to and conversion of the discharge lagoon treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the notes is \$774,810. For the current year, principal and interest paid and total customer net receipts were \$63,390 and \$32,748, respectively.



The resolutions providing for the issuance of the revenue bonds/notes include the following provisions:

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate electric, water and sewer revenue bond/note sinking accounts within the Enterprise Funds for the purpose of making the bond/note principal and interest payments when due.
- (c) Additional monthly transfers shall also be made to the electric, water and sewer reserve accounts to accumulate amounts equal to the maximum principal and interest due in any succeeding fiscal year. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$46,417, \$42,327 and \$43,064, respectively, equal to the required contributions for each year.

**(6) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 7 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$556 for single coverage and \$1,706 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$61,978 and plan members eligible for benefits contributed \$13,298 to the plan.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
<b>City</b>	
Vacation	\$ 7,079
Sick leave	22,262
<b>TMU</b>	
Vacation	43,172
Sick leave	<u>37,277</u>
Total	<u>\$ 109,790</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 92,495
	Local Option Sales Tax	99,009
	TMU	<u>116,651</u>
		308,155
Special Revenue: Road Use Tax	General	85,894
Debt Service	General	142,165
	TMU	<u>57,636</u>
		199,801
Capital Projects	General	55,561
City Sewer	TMU	<u>33,484</u>
Total		<u>\$ 682,895</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$20,570 during the year ended June 30, 2010.

**(10) Tama County Solid Waste Disposal Commission**

The City, in conjunction with other municipalities in Tama County, has created the Tama County Solid Waste Disposal Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the

Commission will be prorated among the municipalities. The Commission is governed by a board composed of an elected representative to the governing body of each participating governmental jurisdiction. The Commission has accumulated \$1,228,000 for closure/post closure expenditures. However, the Commission may not be accumulating sufficient financial resources and the participating governments may be obligated for a proportionate share of the debt, therefore, the City of Traer may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2010, the City paid the Tama County Solid Waste Disposal Commission \$11,557. The Commission is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Commission can be obtained from the Tama County Solid Waste Disposal Commission.

#### **(11) Component Unit Detail**

The Traer Ambulance Service is a component unit of the City of Traer. The Statement of Cash Receipts, Disbursements and Changes in Cash Balance for the year ended June 30, 2010 is as follows:

	Traer Ambulance Service
Operating receipts:	
Intergovernmental	\$ 21,549
Miscellaneous	19,620
General receipts:	
Unrestricted interest on investments	1,200
Total receipts	<u>42,369</u>
Operating disbursements:	
Public safety	<u>32,039</u>
Net change in cash balance	10,330
Cash balance beginning of year	<u>70,389</u>
Cash balance end of year	<u><u>\$ 80,719</u></u>

#### **City paid to Ambulance Service**

Meetings and calls	<u>\$ 21,444</u>
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#### **(12) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(13) Interdepartmental Loans**

##### Water Control Project

The Enterprise Fund, TMU Electric has loaned the Enterprise Fund, TMU Water \$60,000 for the water control project. This loan is a non-interest bearing note, payable from the revenue of the water fund. No payment schedule has been established.

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**City of Traer**

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### **Required Supplementary Information**

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City of Traer

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 678,331	-
Tax increment financing collections	-	-
Other city tax	101,763	-
Licenses and permits	465	-
Use of money and property	7,969	3,509
Intergovernmental	312,496	-
Charges for service	320,441	2,965,142
Miscellaneous	54,032	-
Total receipts	<u>1,475,497</u>	<u>2,968,651</u>
Disbursements:		
Public safety	417,896	-
Public works	440,949	-
Health and social services	7,772	-
Culture and recreation	176,831	-
Community and economic development	167,571	-
General government	131,271	-
Debt service	371,082	-
Capital projects	290,022	-
Business type activities	-	2,656,218
Total disbursements	<u>2,003,394</u>	<u>2,656,218</u>
Excess (deficiency) of receipts over (under) disbursements	(527,897)	312,433
Other financing sources, net	<u>174,287</u>	<u>(174,287)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(353,610)	138,146
Balances beginning of year	<u>1,331,569</u>	<u>1,264,293</u>
Balances end of year	<u>\$ 977,959</u>	<u>1,402,439</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
678,331	675,182	675,182	\$ 3,149
-	-	-	-
101,763	93,594	93,594	8,169
465	5,150	5,150	(4,685)
11,478	27,250	27,250	(15,772)
312,496	359,925	359,925	(47,429)
3,285,583	3,186,357	3,186,357	99,226
54,032	35,700	60,700	(6,668)
4,444,148	4,383,158	4,408,158	35,990
417,896	330,092	485,092	67,196
440,949	403,557	458,557	17,608
7,772	9,324	14,324	6,552
176,831	170,146	185,146	8,315
167,571	148,756	188,756	21,185
131,271	131,800	141,800	10,529
371,082	424,197	429,197	58,115
290,022	425,000	430,000	139,978
2,656,218	2,908,658	2,908,658	252,440
4,659,612	4,951,530	5,241,530	581,918
(215,464)	(568,372)	(833,372)	617,908
-	70,000	190,000	(190,000)
(215,464)	(498,372)	(643,372)	427,908
2,595,862	2,439,924	2,439,924	155,938
2,380,398	1,941,552	1,796,552	\$ 583,846

City of Traer

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$290,000 and receipts by \$25,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.



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**City of Traer**

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### **Other Supplementary Information**

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## City of Traer

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	Special Revenue			Total
	Employee Benefits	Local Option Sales Tax	I-Jobs	
Receipts:				
Property tax	92,495	-	-	92,495
Other city tax	-	93,169	-	93,169
Intergovernmental	-	-	6,962	6,962
Total Receipts	92,495	93,169	6,962	192,626
Disbursements:				
Operating:				
Public Works	-	-	6,962	6,962
Community and economic development	-	80,369	-	80,369
Total Disbursements	-	80,369	6,962	87,331
Excess (deficiency) of receipts over (under) disbursements	92,495	12,800	-	105,295
Other financing sources:				
Operating transfers out	(92,495)	(99,009)	-	(191,504)
Net change in cash balances	-	(86,209)	-	(86,209)
Cash balances beginning of year	-	139,258	-	139,258
Cash balances end of year	-	53,049	-	53,049
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	-	53,049	-	53,049
Total cash basis fund balances	-	53,049	-	53,049

See accompanying independent auditor's report.

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City of Traer  
Schedule of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Series 2000	May 15, 2000	4.9-5.5 %	\$ 400,000
Series 2001	May 1, 2001	4.0-4.7	300,000
Series 2003	Aug 1, 2003	1.75-3.90	500,000
Series 2005	Jun 1, 2005	2.95-4.20	1,250,000
Series 2007	Aug 20, 2007	3.9-4.3	750,000
Total			
Revenue bonds:			
FMHA Water Revenue	Jan 1, 1982	5.00 %	\$ 871,200
2003 Electric Revenue	May 1, 2003	2.5-4.7	1,750,000
Total			
State revolving loans:			
2001 Sewer Revenue	Aug 3, 2001	4.30 %	\$ 757,000
2003 Sewer Revenue	Aug 5, 2003	4.30	101,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
35,000	-	35,000	-	845	-
45,000	-	45,000	-	928	-
340,000	-	40,000	300,000	12,055	-
1,010,000	-	100,000	910,000	38,458	-
700,000	-	55,000	645,000	28,851	-
<b>\$ 2,130,000</b>	-	<b>275,000</b>	<b>1,855,000</b>	<b>81,137</b>	-
451,826	-	29,497	422,329	22,157	-
1,180,000	-	110,000	1,070,000	50,263	-
<b>\$ 1,631,826</b>	-	<b>139,497</b>	<b>1,492,329</b>	<b>72,420</b>	-
560,000	-	33,000	527,000	24,080	-
77,000	-	4,000	73,000	2,310	-
<b>\$ 637,000</b>	-	<b>37,000</b>	<b>600,000</b>	<b>26,390</b>	-

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**City of Traer**

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City of Traer  
Bond and Note Maturities  
June 30, 2010

General Obligation Bonds							
Year Ending June 30,	Series 2003 Issued Aug 1, 2003		Series 2005 Issued Jun 1, 2005		Series 2007 Issued Aug 20, 2007		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	3.20 %	\$ 45,000	3.40 %	\$ 95,000	4.00 %	\$ 60,000	200,000
2012	3.40	45,000	3.55	115,000	4.00	65,000	225,000
2013	3.60	50,000	3.65	100,000	4.05	70,000	220,000
2014	3.70	50,000	3.80	105,000	4.10	70,000	225,000
2015	3.80	55,000	3.90	100,000	4.13	75,000	230,000
2016	3.90	55,000	4.00	100,000	4.15	75,000	230,000
2017	-	-	4.10	100,000	4.20	80,000	180,000
2018	-	-	4.15	100,000	4.25	85,000	185,000
2019	-	-	4.20	95,000	4.30	65,000	160,000
Total		<u>\$ 300,000</u>		<u>\$ 910,000</u>		<u>\$ 645,000</u>	<u>1,855,000</u>

Revenue Bonds					
Year Ending June 30,	FMHA Water Issued Jan 1, 1982		2003 Electric Issued May 1, 2003		Total
	Interest Rates	Amount	Interest Rates	Amount	
2011	5.00 %	\$ 30,516	3.85 %	\$ 115,000	145,516
2012	5.00	32,041	4.00	120,000	152,041
2013	5.00	33,644	4.10	125,000	158,644
2014	5.00	35,326	4.25	130,000	165,326
2015	5.00	37,092	4.40	135,000	172,092
2016	5.00	38,947	4.50	140,000	178,947
2017	5.00	40,894	4.60	150,000	190,894
2018	5.00	42,939	4.70	155,000	197,939
2019	0.05	45,086	-	-	45,086
2020	0.05	47,340	-	-	47,340
2021	0.05	38,504	-	-	38,504
Total		<u>\$ 422,329</u>		<u>\$ 1,070,000</u>	<u>1,492,329</u>

State Revolving Loans					
Year Ending June 30,	2001 Sewer Revenue Issued Aug 3, 2001		2003 Sewer Revenue Issued Aug 5, 2003		Total
	Interest Rates	Amount	Interest Rates	Amount	
2011	4.30 %	\$ 34,000	3.00 %	\$ 5,000	39,000
2012	4.30	36,000	3.00	5,000	41,000
2013	4.30	38,000	3.00	5,000	43,000
2014	4.30	39,000	3.00	5,000	44,000
2015	4.30	41,000	3.00	5,000	46,000
2016	4.30	43,000	3.00	5,000	48,000
2017	4.30	44,000	3.00	6,000	50,000
2018	4.30	46,000	3.00	6,000	52,000
2019	4.30	48,000	3.00	6,000	54,000
2020	4.30	50,000	3.00	6,000	56,000
2021	4.30	53,000	3.00	6,000	59,000
2022	4.30	55,000	3.00	6,000	61,000
2023	-	-	3.00	7,000	7,000
Total		<u>\$ 527,000</u>		<u>\$ 73,000</u>	<u>600,000</u>

See accompanying independent auditor's report.

City of Traer

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Seven Years

	2010	2009	2008	2007
Receipts:				
Property tax	\$ 678,331	654,765	586,025	529,737
Tax increment financing collections	-	-	-	38,387
Other city tax	101,763	100,986	99,065	98,890
Licenses and permits	465	3,250	560	1,157
Use of money and property	7,969	22,421	52,548	48,317
Intergovernmental	312,496	196,741	634,435	658,826
Charges for service	320,441	308,275	286,166	275,814
Miscellaneous	54,032	36,365	36,541	117,090
Total	<u>\$ 1,475,497</u>	<u>1,322,803</u>	<u>1,695,340</u>	<u>1,768,218</u>
Disbursements:				
Operating:				
Public safety	\$ 417,896	273,554	241,390	238,436
Public works	440,949	359,911	348,085	332,536
Health and social services	7,772	7,302	9,469	9,163
Culture and recreation	176,831	168,456	181,152	153,465
Community and economic development	167,571	107,527	226,156	131,431
General government	131,271	132,973	131,735	134,765
Debt service	371,082	360,438	290,524	321,710
Capital projects	290,022	221,407	518,952	550,686
Total	<u>\$ 2,003,394</u>	<u>1,631,568</u>	<u>1,947,463</u>	<u>1,872,192</u>

See accompanying independent auditor's report.



2006	2005	2004
488,081	466,425	450,358
30,519	27,954	7,978
85,221	82,107	67,751
1,688	2,064	2,154
21,673	26,655	18,604
293,987	521,023	289,983
267,246	122,712	214,406
353,987	191,957	447,982
<u>1,542,402</u>	<u>1,440,897</u>	<u>1,499,216</u>
277,207	243,189	159,791
343,485	355,075	310,259
7,882	7,518	4,693
156,602	167,091	140,266
104,266	161,551	98,216
139,770	142,528	151,884
245,761	209,824	205,107
1,711,090	370,740	1,465,379
<u>2,986,063</u>	<u>1,657,516</u>	<u>2,535,595</u>

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**City of Traer**

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# **LINES MURPHY & COMPANY, P.L.C.**

Certified Public Accountants

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor, Members of the City Council and  
Board of Trustees, Traer Municipal Utilities:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 1, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Traer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Traer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Traer's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Traer's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies we considered to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Traer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Traer's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Traer's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Traer and other parties to whom the City of Traer may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Traer, Traer Municipal Utilities and the Traer Ambulance Service during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lines Murphy & Company, P.L.C.  
Certified Public Accountants  
Osage, Iowa

October 1, 2010

City of Traer  
Schedule of Findings  
June 30, 2010

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Traer  
Schedule of Findings  
June 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Traer  
Schedule of Findings  
June 30, 2010

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.
- III-B-10 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- III-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-10 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jake Schmitt, Council Member, Part Owner of Wieck Brothers Oil Company	Gasoline and diesel	\$ 20,570

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Council Member appears to represent a conflict of interest since the total transactions with him were more than \$1,500 during the fiscal year and bids were not taken.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – Purchases from Wieck Brothers Oil are day-to-day fuel purchases for the City, TMU, Fire Department and Ambulance vehicles. There are three gas stations in town and a rotating schedule is used to purchase fuel from all three stations. We do not feel this is a conflict of interest.

Conclusion – Response accepted. However, the City should still consult legal counsel to determine the disposition of this matter.

- III-E-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Traer  
Schedule of Findings

June 30, 2010

- III-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required.

Response – We will continue to make every effort to publish minutes as required. However, with a local paper that is published only once per week, with a cutoff 3 days before publication, it can be difficult to do so within 15 days.

Conclusion – Response accepted.

- III-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- III-H-10 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

- III-I-10 Telecommunications Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.

- III-J-10 Discriminatory Rates – We noted that the City charges two rates for garbage based on age. Chapter 388.6 of the Code of Iowa states, in part, that there cannot be special rates based on discriminatory factors. (senior citizens)

Recommendation – The City should consult legal counsel about this issue.

Response – The City will consult legal counsel.

Conclusion – Response accepted.

- III-K-10 Financial Condition – The TMU Telecom Fund had a deficit balance of \$11,198 at June 30, 2010.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.